

XSOE: "IF YOU TRADE IT, LIQUIDITY WILL COME"

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Over the past year, the [WisdomTree Emerging Markets ex-State-Owned Enterprise Fund \(XSOE\)](#) has seen impressive outperformance relative to its largest emerging markets ETF peers.¹ It is no wonder shares outstanding in the ETF have grown by 227% over the same period, as seen in figure 1.

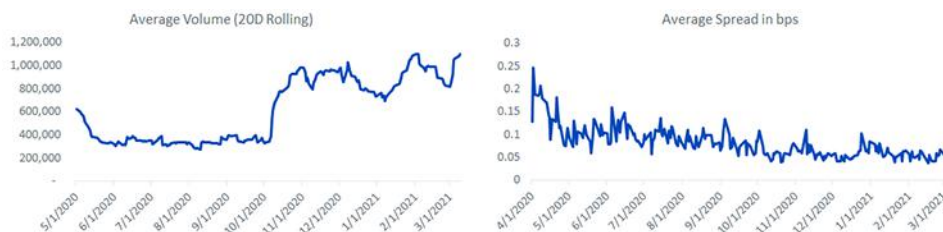
Figure 1



Source: Bloomberg, Does not represent investment performance.

With this type of growth, it's not uncommon to see [bid/ask spreads](#) compress as a significant increase in [average daily volume](#) results from investor interest, as shown in figure 2.

Figure 2



Source: Bloomberg, as of 3/8/21.

As the saying goes from the 1989 film, Field of Dreams, "If you build it, they will come." The same can be said for ETFs: "If you trade it, [liquidity](#) will come." The ETF wrapper can act as source of liquidity that can trade at lower than underlying costs as investors meet on exchange to pair off [risk](#). Alternatively, [market makers](#) can leverage this two-way flow rather than using the [creation/redemption](#) mechanism to unwind their positions.

Over this period of demand in XSOE, more market makers throughout the ETF eco-system have been competitively

providing liquidity to investors of all shapes and sizes, using various trading strategies. Over the past six months, we have seen three examples that highlight both the liquidity profile of the Fund and the varying execution strategies that can be used to achieve exceptional execution:

1. On November 5, 2020, we saw an investor buy \$37 million of XSOE in a single "risk block" with an ETF liquidity provider. This trade printed 4 cents above the screen offer, which only showed 300 shares to buy at the time. That's only 11 [basis points \(bps\)](#) of cost above the on-screen price for a very large amount of emerging markets (EM) exposure during the middle of the U.S. trading session.
2. On March 3, 2021, an investor swapped \$65 million of a large [beta](#) EM fund for XSOE in two [block trades](#). The trades were priced as a switch trade where the market maker is using the correlation and overlap efficiencies of the two ETFs to improve the client's overall execution. This trade went up on the "touch," meaning the broad beta EM fund was sold on the screen bid and XSOE bought on the screen offer. A tremendous display of liquidity.
3. On March 8, 2021, an investor had their broker trade \$225 million using a [volume-weighted average price \(VWAP\)](#) algorithm. This is where the broker buys shares electronically throughout the day, attempting to match the volume-weighted average price. An incredible display of on-screen liquidity in the Fund.

[No matter if you are trading 100 shares](#) of XSOE or 5 million, market makers stand ready to provide liquidity at competitive prices.

Remember, there are many ways to trade, but strategy matters. A few tips: always use [limit orders](#) when trading on-screen and never [market orders](#); work with your platform trading desks when trading in larger size; and if you are selling another similar exposure ETF, try to [maximize those efficiencies using a switch trade](#). If you are not sure what's the best decision, don't guess—we on the Capital Markets desk are here to assist with your trading strategy decisions to help save you money on your execution! Email us at uscapmks@wisdomtree.com.

¹Source: Bloomberg, as of 3/8/21.

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You cannot invest directly in an index.

DEFINITIONS

Bid/Ask Spread : This is essentially the difference in price between the highest price that a buyer is willing to pay for an asset and the lowest price for which a seller is willing to sell it.

Average daily volume : Average dollar amount traded over the course of a single trading day.

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

Market maker : Someone who quotes a buy and a sell price in a financial instrument.

Creation and Redemption Process : The process whereby an ETF issuer takes in and disburses baskets of assets in exchange for the issuance or removal of new ETF shares.

Basis point : 1/100th of 1 percent.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Block order : Typically, a 10,000 share order (excluding penny stocks) or \$200,000 worth of fixed-income securities would constitute a block order.

Volume-weighted average price (VWAP) : A trading benchmark using price and volume, over a specific time period

Limit Orders : An order placed with a brokerage to buy or sell a set number of shares at a specified price or better.

Market Orders : An order that an investor makes through a broker or brokerage service to buy or sell an investment immediately at the best available current price.